

TF2 Bill Request and Background 5/4/09

The Michigan Transportation Funding Task Force (TF2) issued their report in November 2008 with the one overriding statement: **"The one choice we cannot afford is to do nothing."** Doing nothing is an unacceptable alternative, as Michigan's current transportation funding methods will soon no longer be sufficient for Michigan to take advantage of federal funding because there will not be enough state and local matching funds to claim all federal transportation funding available to the state. **The Michigan Department of Transportation (MDOT) alone will lose almost \$600 million in federal aid beginning in 2011, and \$1.9 billion between 2011 and 2013.** Michigan cannot afford to lose that amount of funding for transportation, now or in the future. Doing nothing will put our long term investment in transportation systems at risk, and risks our future economic recovery and growth by postponing for another day problems we can no longer ignore or deny.

The TF2 report recommended wide ranging recommendations with the goal of achieving a "good" level of investment in Michigan's transportation system. Since that report was issued, members of the task force, legislators, transportation groups, planning organizations, and MDOT have been working together to develop a legislative agenda that reflects those recommendations and achieves a "good" level of investment. A "good" level of investment will sustain 126,000 Michigan jobs, attract new business, and open new global markets for Michigan products and services. It will yield roughly \$41 billion in other economic benefits for all sectors of the Michigan economy.

The following combination of proposals is designed to stabilize transportation funding and gradually, over a period of 5 to 7 years, to achieve 90 percent of the recommended increases of state investment in roads, bridges, and transit.

REFORMS AND EFFICIENCIES

1. A bill to create provide for public-private partnerships.

What: This bill provides authority for MDOT to enter into Public Private Partnership (P3) agreements related to researching, planning, studying, designing, developing, financing, acquiring, constructing, tolling, operating, or maintaining a transportation facility, or any combination of those activities.

Why: As part of Michigan's activities to revitalize our economy, we need to look at alternative means to deliver and fund large infrastructure projects. P3s are not the only solution to all of our transportation funding needs, but they can facilitate the innovative delivery of services and infrastructure and are a useful tool that transportation officials need to have available. Not only will P3s attract private investors to Michigan, create jobs, and grow our economy, but they will foster competition in the private sector to provide government and the public with the best value.

2. A bill to amend PA 51 to expand the Asset Management Program to include all public roads, pavement, ancillary elements and utility location as well as to transit programs.

What: Extending the Asset Management benefits of this program to other major aspects of the roadway that are important to safety and to pavement condition. This legislation creates a new transit asset management committee, which will provide technical guidance and assistance. The transit asset management committee will be appointed by the State Transportation Commission and will report its progress to the Commission on a regular basis.

Why: This legislation will enhance existing asset management by providing for consistency among agency plans. It will also provide for a permanent, ongoing method of industry-wide oversight of asset management practices as well as allow for the State Transportation Commission to guide and support the process. These amendments will also provide MDOT and the transit industry the information needed to do statewide reporting on the condition of the transit infrastructure.

3. A bill that would amend PA 51 to reward counties for planning multi-county corridors.

What: Provides extra state aid to counties that jointly plan and build projects that function as multi-county through routes. For qualifying federally-aided projects, an award will be made equal to 8 percent of project cost, allowing counties to provide half the match from county funds. Counties or rural task forces will develop projects in the usual way, and if qualifying as a regional corridor, upon completion will be awarded 8 percent of project cost. This will slightly reduce all other county distributions in any month in which an award is made.

Why: Enhances coordination, collaboration, and communication between counties to deliver regional corridors. Relieves some of the fiscal burden on the counties by lessening the amount needed for the match.

4. A bill to amend PA 51 establishing a transit regionalization planning and grant program.

What: Under this program, the department will make grants to Metropolitan Planning Organizations (MPOs) to develop and carry out a transit regionalization work program. The MPO will work with each urban transit agency to identify the opportunities for enhanced regional coordination, develop an action plan and report to MDOT on the progress being made. The amendments require urban transit agencies to make progress on an enhanced coordination plan in order to remain eligible for state capital assistance.

Why: This bill allows for a customized approach for each transit agency, with the understanding that there is not a "one size" fits all approach to regionalization. The bill allows each MPO and urban transit agency to set its own objectives, subject to public review and comment, and then holds the transit agency accountable for making progress toward those objectives. Also while the action plan may propose to enhance coordination through creation of a single regional authority, it is not a requirement of these amendments. The purpose of these amendments is not to force or encourage merging of transit systems,

rather they are aimed at ensuring coordination among providers to improve services to the public and create organizational efficiencies.

5. A bill making the following amendments to Act 51:

- a. Repeal the Local Bus New Services Program.**
- b. Create a new Transit Services Program**
- c. Appropriate up to \$50M/year to the New Transit Services**

What: Reform Local Bus New Services Program. The bill amends the CTF portion of Act 51 to create a new transit services program for projects that will provide new rapid or regional transit in or between Michigan urban areas. Recipients may include public and private corporations, transit agencies and authorities or other public transportation providers.

The amendments allow for up to \$50,000,000 each fiscal year for this program. MDOT must prioritize funding requests annually and will give priority to projects that include regional coordination among existing transit providers.

Why: The economic, environmental and mobility benefits of transit expands exponentially when rapid transit and rail transit are added to the available services. A state funding program dedicated specifically to urban transit can ensure that the state can provide all or a portion of the match funds needed to compete for projects that are a state priority. It can also provide over-match for the most desired projects in the state, making them more competitive for federal funds. These amendments also allow MDOT to provide operating assistance to supplement local and regional funds. Because rapid and rail transit is evolving in Michigan, the proposed state program is flexible in that it allows MDOT to provide for differing levels of capital and/or operating assistance, to advance those projects of highest priority in the state and with assistance that is specific to the financial needs of each project.

6. A bill making the following amendments to the Act 51 formula:

- a. Fund Secretary of State and Treasury costs of collection from the TACF only.**
- b. Allow the MTF to receive other than fuel- and registration-tax revenues (tolls).**
- c. Changes Local Bridge Fund and STF appropriation to conform to wholesale motor fuel tax.**
- d. Double rail grade-crossing program to \$6,000,000/year.**
- e. Simplify formula without reducing appropriations to local agencies.**
- f. Update USC reference and delete obsolete language.**

What: Implement PA 51 Reforms.

- a. State restricted funding that could be used for road and bridge projects has in the past been allocated through Interdepartmental Grants (IDGs) to the Departments of State and Treasury for costs associated with the collection of vehicle registrations and motor fuel taxes. These departments currently also receive funds from the Transportation Administration Collection fund, created through an surcharge on vehicle registration fees. The proposal would limit the IDGs by making an explicit appropriation to the Transportation Administration Collection Fund (TACF) instead.

- b. In the event that toll revenue and P3s are enabled, the Michigan Trust Fund (MTF) must be updated to allow receipt of the new revenue.
- c. Currently the Local Bridge Fund (LBF) and the State Transportation Fund (STF) are set up to receive funds based on a pennies per gallon formula. If the proposed change to a percentage of the wholesale price per gallon is enacted, the LBF and the STF need to be changed as well to reflect this changes.
- d. Doubling the rail grade-crossing program to \$6M/year is essential to maintain and improve the safety of our transportation system. This program has been historically under-funded.
- e. Changes proposed to simplify language in Act 51 will not reduce appropriations to local agencies. The balance of the Michigan transportation fund will continue to be distributed as follows:
 - (i) 39.1% to the state trunk line fund
 - (ii) 39.1% to the county road commissions of the state
 - (iii) 21.8% to the cities and villages of the state
- f. The reference to the United States Code was to 23 USC 157, but has been changed to 23 USC 105. This section states that thirty-one and one-half percent of the funds appropriated to this state from the federal government, commonly known as minimum guarantee funds, shall be allocated to the transportation economic development fund, if such an allocation is consistent with federal law.

Why: Updates and changes to Act 51 will free up transportation revenue for transportation purposes, as well as allow alternative revenue collection options to be accepted by the MTF and STF. Many of these items are general housekeeping efforts that are needed in order to keep the flow of transportation funding at a consistent level in light of other proposed changes.

INNOVATIVE LOCAL FUNDING OPTIONS

7. A bill to enable Tax Increment Financing Authorities for any transportation purpose. (TIFA)

What: This bill would, at the request of a transportation agency, a county, city, village, or township, allow that agency to establish a transportation investment zone to promote and finance transportation investment. A tax increment financing plan for the zone would be created by the local governmental entity, which would require that tax increment revenue received by the transportation agency be used only for expenses of constructing or widening streets, roads, and highways, or for operating assistance for transit agencies, or capital investment in transit vehicles and facilities, as defined in the tax increment plan.

Why: Transportation investments are often a key factor in the success of economic development, housing, and community development projects. This bill would provide transportation agencies another financing source to provided needed transportation improvements that not only benefit the specific project, but also provide benefits to the

wider community. The ability to create a tax increment financing authority for transportation purposes would also speed the development project in those cases where the transportation agency lacks the funds to provide the needed transportation improvements.

8. A bill to create a Private Investment Infrastructure Funding (PIIF) Option.

What: This bill would allow private investors to fund all or part of public infrastructure improvement projects via a public/private structure that offers investors the potential for the return of principal with the opportunity to earn market-rate, tax-exempt interest.

The infrastructure improvement would be implemented by MDOT, a county road agency, county drain commission, or municipality, depending upon jurisdiction, or by a private entity under permit issued by the governmental entity with jurisdiction. The investor would be repaid over time for this investment, based on the capture of a dedicated portion of anticipated increases in property tax revenues in a specific district, called a Negotiated Benefit Area, within which the public infrastructure improvement project would be carried out. Any risk that the anticipated incremental tax capture does not generate enough revenue to service the debt will be borne by the private-sector investor. As in the open marketplace, the investor must accept this risk as part of the agreement.

Why: This bill will create the opportunity for private funding for critically needed, but under-financed, public infrastructure projects without increasing local or state taxes. Participation in this process would be voluntary on the part of all taxing authorities and the fraction of the increment used to repay the investment cost would be flexible. The risk of failure of property tax assessments to rise would be borne by investors, not by the public, and would not have any impact on property owners apart from the impact of development generally on property values. Large investors would want to use this for things like new interchanges, but it could also help finance road widenings, programs of intersections or corridor improvements, and bus rapid transit, commuter rail, or trolley projects.

9. A bill enabling county funding options on driver licenses up to \$25 on all operator's licenses (including minor restricted), up to \$35 on chauffeurs' licenses.

What: The bills would provide local transportation agencies with an array of financial tools to generate transportation revenue at the local level. The fee collected can be used for road construction, preservation and maintenance, public transportation and related infrastructure, and non-motorized transportation infrastructure as approved by the voters in the county or counties where the tax was collected.

Why: Local transportation agencies already make a significant contribution to transportation investment, but as state and federal partners increase their participation, local governments must be prepared to do the same. There is a need to enable corridor authorities to raise revenue along a certain alignment for a particular project that may span multiple counties or municipalities.

FUNDING

10. A bill to amend the motor fuel tax act. Develop a system that will:

- a. Provide for an initial flat or slight decrease in the fuel tax**
- b. Set a cap equivalent to 34 cents in the tax rate that will, over time, increase the amount of funding from fuel tax collection**
- c. Minimize the effect on the tax due to extreme fuel price swings**

What: This proposal will move Michigan from a pennies-per-gallon gas tax to a tax based on a percent of gasoline wholesale price. The conversion is structured in a way that not only protects Michigan drivers, but also protects Michigan's long-term investment in transportation infrastructure. There will be an initial reduction of ½ cent in the gas tax until the new wholesale program goes into effect on January 1, 2010.

The way the proposal is structured, drivers will actually see some relief in their tax at the pump as the conversion first takes place. Over time, as the price of gas increases, the tax will also increase modestly, providing additional much-needed revenue to state and local transportation agencies struggling to meet rising costs while maintaining roads and bridges and other transportation services.

But the proposal is structured with capped increases so that even if the wholesale price of gas increases dramatically, as it did in 2008, the tax on that gas will not go up more than 5.5 cents in the first year and not more than 3 cents in any year after that. Overall the increases are capped so that after 7 years, no matter how much the price of gasoline increases, the fuel tax cannot grow greater than 90 percent. This level of funding is less than recommended by the Transportation Funding Task Force but necessary to protect and preserve Michigan's transportation systems.

The proposal is also structured in a way that protects transportation revenue should the price of gas fall, so that Michigan's transportation agencies can continue the work they must do to preserve the mobility of Michigan's businesses and residents.

Why: Michigan's transportation revenue has fluctuated in the past few years and this proposal will provide a more steady and reliable source of funds for transportation investment. It is a long-term, phased-in approach that will first stabilize and then, over the next 5 to 7 years, gradually increase transportation revenue to a level that will help ensure Michigan continues to have a transportation system that not only meets our needs but helps our economy grow.

11. A bill to amend the motor carrier tax act.

What: Like the proposed conversion of the gas tax, this proposal would convert the existing diesel fuel tax from a pennies-per-gallon tax to a tax based on the percent of wholesale price. The only essential difference between the two proposals is that the rate of the percent tax on diesel fuel would differ slightly from that for gasoline in order to bring diesel fuel taxes to parity with gasoline taxes. The proposed diesel tax conversion would have the same protections built into its structure as were described for the gasoline tax.

Why: Conversion of the diesel tax will allow diesel fuel to be taxed at a rate comparable to gasoline taxes. This parity is a change that has long been advocated, and will help ensure

that commercial carriers pay their fair share for road use. Truck traffic is projected to increase at a faster rate than other vehicles over the coming decades, so it is important to ensure that truckers start paying their full share of road use costs now.

12. Amend the Michigan Vehicle Code vehicle-registration-fee sections. This language will double vehicle-tax revenue to the Michigan Transportation Fund (MTF) over a 5-year period by:

- a. Increasing most registration fees by 10% the first year and 20% a year the next 4 years; excepting motor homes and the lowest-priced cars.**
- b. Increase banding from the current \$1,000 per band to \$3,000 per band**
- c. Eliminating the registration-transfer loophole by requiring a pro-rata payment when transferring registrations**
- d. Increasing commercial truck registration fees 5% a year for 4 years, resulting in a 20% registration increase.**

What: This proposal would increase most automobile and light-truck registration fees by 10% the first year and 20% per year for the next four years. The lowest-priced cars covered by Michigan's price-based registrations fees would be exempt from the increases, as would motor homes.

Weight-based truck registration fees would be increased by 5% a year for four years.

The grouping of vehicle prices into larger bands would simplify the calculation of the registration fee.

Examples

The average price of a **new car** in Michigan is \$25,000. Using a typical Ford Taurus Limited 4-door sedan costing \$26,645; the average current registration fee is \$136.

Under this proposal, the annual registration tax on:

That same car, purchased **new** in the first year of this proposal, would be \$157. (2010)

That same car, purchased **new** in the second year of this proposal, would be \$184. (2011)

That same car, purchased **new** in the third year of this proposal, would be \$211. (2012)

That same car, purchased **new** in the fourth year of this proposal, would be \$238. (2013)

That same care, purchased **new** in the fifth year of this proposal, would be \$265. (2014)

A typical new Lexus GS350 4-door sedan costs approximately \$44,150; the average current registration fee is \$233

Under this proposal:

That same car, purchased **new** in the first year of this proposal would be \$256. (2010)

That same car, purchased **new** in the second year of this proposal would be \$301. (2011)

That same car, purchased **new** in the third year of this proposal would be \$346. (2012)

That same car, purchased **new** in the fourth year of this proposal would be \$391. (2013)

That same car, purchased **new** in the fourth year of this proposal would be \$436. (2014)

As you can see from this example, the registration fee is slightly less than double by the end of the phase-in. The higher fee also reflects the impact of reducing the number of fee categories by consolidating them from the current \$1,000 range (*i.e.* \$24,000 to \$25,000) to the proposed \$3,000 range per category (*i.e.* \$24,000 to \$27,000) and calculating the fee at the highest price in each category.

Used Cars

Used car owners in Michigan get a 10% reduction in registration fees the first three times registration is renewed; the discount ends the fourth time the registration is renewed. Thus the calculation, under the proposal, for a used car registration fee will reflect the 20% increase in each of the 5 years but it will be some what offset by the 10% reduction in the car's value.

		<u>Under Proposed Amendments taking Effect in 2010</u>				
<u>\$26,645 Taurus</u>		<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<u>bought new in:</u>						
2009(\$133)	\$142	\$150	\$156	\$175	\$195	
2008(\$121)	\$130	\$136	\$156	\$175	\$195	
2007(\$109)	\$116	\$136	\$156	\$175	\$195	
2006(\$99)	\$116	\$136	\$156	\$175	\$195	

		<u>Under Proposed Amendments taking Effect in 2010</u>				
<u>\$44,150 Lexus</u>		<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<u>bought new in:</u>						
2009(\$233)	\$231	\$245	\$254	\$287	\$320	
2008(\$211)	\$208	\$221	\$254	\$287	\$320	
2007(\$190)	\$188	\$221	\$254	\$287	\$320	
2006(\$172)	\$188	\$221	\$254	\$287	\$320	

Low Value Cars

Cars priced at \$12,000 or less are most likely to be owned by low income families, working poor, college students, etc. Depending on the price of the vehicle, the registration fee ranges from \$30 for cars priced at \$0 to \$6,000 to a high of \$50 for cars priced between \$11,000 to \$12,000. Under the proposal, these vehicles registration fees will only increase slightly due to the change in how car prices are banded together. These changes are:

<u>Value</u>	<u>Current Registration Fee</u>	<u>Proposed Registration Fee</u>
\$0 - \$6,000	\$30	\$30
\$6,000 - \$7,000	\$32	\$35
\$7,000 - \$8,000	\$35	\$35
\$8,000 - \$9,000	\$39	\$35
\$9,000 - \$10,000	\$43	\$46
\$10,000 - \$11,000	\$46	\$46
\$11,000 - \$12,000	\$50	\$46

Why: This proposal offers a long-term, phased-in approach to stabilize state funding for transportation, with an initial modest revenue increase that will grow over time. Registration fees are the alternative to higher motor-fuel taxes. Registration fees remain deductible from income for federal income tax.

The lowest-priced cars are excluded from the increases, to lessen impact on low-income households. Motor homes are exempted as well, to prevent impact on the tourism sector in Michigan, and prevent excessive increases on these high-priced vehicles that are often used by retirees.

13. A bill to amend the Michigan Aeronautics Code.

What: This bill would increase the tax on aviation fuel from 3 cents per gallon to 2 ½ percent of the wholesale price of the fuel. This would increase aviation fuel tax revenue from \$5.81M to \$8.75M. While not entirely revenue neutral this modest increase merely restores recent declines in aeronautics revenue. On January 1, 2011, the tax would change to 3%, and on January 1, 2012, the tax would change to 4%. Based on current wholesale fuel prices, this would generate \$11.09M and \$15.76M respectively.

Also addressed in this bill are aircraft registration fees which would increase from 1 cent per pound to 2 cents per pound based on the maximum gross weight of the aircraft with a \$25 minimum registration, an increase of the Aircraft Dealer license from \$25 to \$100 and an increase in the monthly penalty for failure to register an aircraft from \$5 to \$10 dollars. This would increase the revenue to MDOT from approximately \$290,000 to \$590,000.

Why: These increases, which include the first increase to aviation fuel tax since its inception in 1929, would allow full restoration of recently cut aviation programs to local airports and allow for a continued ability to match federal grant revenue far into the future.



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

KIRK T. STEUDLE
DIRECTOR

May 8, 2009

The Honorable Bill Hardiman, Chair
Senate Appropriations Subcommittee
on Transportation
Michigan State Senate
P.O. Box 30036
Lansing, Michigan 48909

The Honorable Lee Gonzales, Chair
House Appropriations Subcommittee
on Transportation
Michigan House of Representatives
P.O. Box 30014
Lansing, Michigan 48909

Dear Senator Hardiman and Representative Gonzales:

The intent of this letter is to provide information and clarify any possible misinformation regarding toll credits in the State of Michigan.

Toll credits are a financing tool allowed by federal regulations that can be used in lieu of cash to match federal aid. For example, if a \$1 million project normally would have a funding split of \$800,000 in federal funds and \$200,000 in state funds, using toll credits can increase federal funding to \$1 million or 100 percent of project cost if an additional \$200,000 of federal funds were available. Toll credits can maximize the use of available federal aid; however, they do not create any more federal or state revenue than was previously projected for the state.

It is true that with a sufficient continuing source of toll credits, the concern of Michigan not being able to match federal aid in Fiscal Year (FY) 2011, and beyond, would not exist. The Michigan Department of Transportation (MDOT) would use toll credits and fund projects with 100 percent federal aid. However, the State of Michigan does not have sufficient toll credits to remedy this issue and has not earned toll credits since FY 2004.

Michigan, as any other state, earns toll credits based on capital expenditures made on toll facilities. In order to earn toll credits, a state must meet Maintenance of Effort (MOE) requirements in the year the capital expenditures at the toll facility were made. MOE is defined as when the state's total road and bridge capital expenditures in the current year exceed the average amount of capital expenditures in the prior three years. MOE is not a toll facility by toll facility calculation; it must be done for the state as a whole. With the State of Michigan's declining revenue, we are faced with each current year's expenditures being less than the average of the three prior years. Should Michigan meet its MOE, we will earn toll credits based on the amount of capital expenditures made on toll facilities in that year. A dollar of capital expenditure on a toll facility earns a dollar of toll credit when MOE is met.

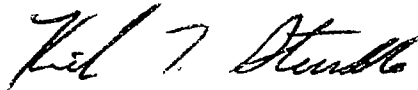
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To date, the amounts of capital expenditures for the Detroit International Bridge Company (DIBC) have not been available to MDOT. Therefore, we are unable to determine if this would allow Michigan to meet its MOE and earn toll credits. Simply having capital expenditures on a toll facility does not mean it will result in the state earning additional toll credits. Following the Senate Detroit River International Crossing Committee meeting held on August 27, 2008, MDOT requested information from the DIBC regarding its capital expenditures to determine if it would allow Michigan to meet MOE and, if so, to earn toll credits. Thus far, DIBC has not provided this information.

Enclosed is a detailed report of information regarding toll credits in Michigan.

If you have any follow up questions, please contact either me or Edward A. Timpf, Administrator, Financial Operations Division, at 517-373-1527.

Sincerely,

A handwritten signature in black ink, appearing to read "Kirk T. Steudle".

Kirk T. Steudle
Director

Enclosure
cc: Senate & House Appropriations Subcommittee
on Transportation